

Statement to 7.30 from Prime Capital

We have looked at the file, and an interview may be possible, but after our review we are assuming the client may not have provided you with full facts or information and request that you seek more information from the client at this point.

Specifically, we note your questions are around three main topics, being:

1. The interest rate and therefore “value for money” of the product
2. Business or private use of the funds
3. Supply of loan statements

On these issues we provide further guidance below and request that you seek further documents from the client.

Interest rate and value for money

This client and her mortgage broker contacted us in September 2015 seeking funding, for what was described as a development project in Melbourne.

They put forward two properties as security for the funds. Both properties had existing mortgages with ANZ. At the outset we approached this file as a first mortgage facility which would involve paying out the existing ANZ loans and providing the additional funds in addition to those loan balances. The client also sought information on a second mortgage facility where the ANZ loans would remain in place, and our facility would rank second behind those on title.

In 2015 we provided both types of loans (first and second mortgage loans). Second mortgage loans are higher risk and so attract a higher interest rate, both in terms of our cost of funds and delivered rate to the client. We agree the rates (and cost for both parties) in the market for second mortgages are high. We no longer offer this type of product.

Both options were provided to the client – a first mortgage facility for the entire amount of the ANZ loans and the development funding required (at lower rates) or a second mortgage facility for just the development funding (at higher rates). The client chose the second mortgage option, no doubt after considering the price differential of:

1. Keeping in place the larger ANZ loans and paying the higher rate on the smaller second mortgage facility; compared to

2. Replacing all loans with a first mortgage from us

We suggest seeking documentation (emails and approvals) from the client showing both options were raised and presented.

Structuring of the transaction

At the initial enquiry, the client provided information that the funds were required to complete a development project and included a business name (Source Property Services Pty Ltd). The client's accountant later became involved, providing advice to the client that she should use a different entity: Carroll James Superannuation Pty Ltd.

We enquired if that was a superannuation fund, as superannuation funds are unable to conduct business activities, and client's accountant confirmed it was not.

The client then obtained independent legal advice on the transaction, and we are aware that lawyer informed the facility must be used for business purposes, and any non business purpose would be a breach of the facility. The client also signed declarations to us that the funds would be used for business purposes.

We suggest seeking documentation from the client which outlines: use of the funds at the application stage, advice from her accountant on which business entity to use, advice from her lawyer on business use requirement, and copies of the signed transaction documents attesting to business use purposes.

Loan statements

In relation to the loan statement issue, we accept the challenges from the client and note:

- Our systems at the time required clients to elect to receive loan statements in paper or electronic format, with paper being the default format
- The client requested loan statements on 10 May 2016 and 2 June 2016. In both cases paper loan statements were issued on request and sent to the clients address per the loan documents
- The client said she did not receive those paper versions, and was asked to complete a form to change the process to electronic delivery of loan statements. The client did not complete that form but continued to express frustration at not receiving loan statements

We accept that these procedures were unhelpful and bureaucratic. We no longer use the loan management system from that time, and have invested considerable time and funds into a new system which delivers a better customer experience when clients seek loan statements or wish to change the method of delivery. We apologise to Ms James for her frustrations from that experience with us.